



CHINA OVERSEAS LAND & INVESTMENT LTD.



INTERIM REPORT

2004

中國海外



Results

The board of directors (the "Directors") of China Overseas Land & Investment Limited (the "Company") hereby announces the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30th June, 2004. The consolidated profit after minority interests and tax amounted to HK\$368,076,000, representing an increase of 74% as compared to the corresponding period in 2003. The earnings per share is HK5.94 cents, representing an increase of 51% as compared to the corresponding period last year.

Consolidated Results

The unaudited consolidated results of the Group for the six months ended 30th June, 2004 and the comparative figures for the last corresponding period in 2003 are as follows:

Consolidated Income Statement

	Notes	Six months ended 30th June	
		2004 HK\$'000	2003 HK\$'000
Turnover		3,908,137	3,301,324
Cost of sales		(3,114,341)	(2,788,427)
Other revenue		9,515	14,692
Distribution expenses		(47,732)	(33,994)
Administrative expenses		(158,647)	(118,694)
Profit from operations	(3)	596,932	374,901
Finance costs		(43,893)	(27,649)
Share of results of			
Associates		3,370	8,009
Jointly controlled entities		8,825	—
Profit before taxation		565,234	355,261
Income tax expense	(4)	(153,654)	(84,157)
Profit before minority interests		411,580	271,104
Minority interests		(43,504)	(59,082)
Profit for the period		368,076	212,022
Dividends	(5)	127,299	108,249
Earnings per share	(6)		
Basic		5.94 cents	3.92 cents
Diluted		5.86 cents	3.90 cents

Consolidated Balance Sheet

	Notes	30th June, 2004 (unaudited) HK\$'000	31st December, 2003 (audited) HK\$'000
Non-current Assets			
Investment properties		1,749,070	1,757,270
Property, plant & equipment		1,205,096	1,154,040
Properties for development		1,759,235	1,009,862
Interests in associates		1,094,631	1,196,149
Interests in jointly controlled entities		759,202	304,652
Investments in infrastructure projects		173,326	180,540
Investments in syndicated property projects		605,722	652,169
Investments in securities		—	7,243
Instalments receivable		25,328	211,631
Pledged bank deposits		16,801	11,903
Negative goodwill		(115,346)	(119,355)
		<hr/> 7,273,065 <hr/>	<hr/> 6,366,104 <hr/>
Current Assets			
Inventories		23,155	13,092
Properties for sale		6,542,103	5,539,930
Investments in infrastructure projects		21,928	12,910
Trade and other receivables	(7)	1,626,773	1,703,324
Amounts due from customers for contract work		182,390	45,774
Deposits & prepayments		562,214	472,557
Tax prepaid		32,735	40,033
Bank balances and cash		4,026,125	2,369,952
		<hr/> 13,017,423 <hr/>	<hr/> 10,197,572 <hr/>

**Consolidated Balance Sheet** (continued)

	Notes	30th June, 2004 (unaudited) HK\$'000	31st December, 2003 (audited) HK\$'000
Current Liabilities			
Trade and other payables	(8)	2,938,857	2,871,762
Sales and other deposits		1,907,004	1,345,075
Amounts due to customers for contract work		280,575	217,689
Amounts due to associates		190,708	202,296
Tax liabilities		304,973	288,604
Current portion of long-term bank loans		283,019	—
purchase consideration payable		31,107	31,107
Bank Loans and overdrafts – unsecured		1,660,377	686,075
Bank Loans – secured		90,566	—
		7,687,186	5,642,608
Net Current Assets		5,330,237	4,554,964
		12,603,302	10,921,068
Capital and Reserves			
Share capital		636,493	544,103
Reserves		9,164,332	7,541,646
		9,800,825	8,085,749
Non-current Liabilities			
Long-term bank loans		1,893,019	1,921,320
Amounts due to minority shareholders		644,387	656,854
Purchase consideration payable		73,806	73,806
Deferred tax liabilities		191,265	183,339
		2,802,477	2,835,319
		12,603,302	10,921,068

Condensed Consolidated Cash Flow Statement

	Six months ended	
	30th June	
	2004 (unaudited) HK\$'000	2003 (unaudited) HK\$'000
NET CASH FROM OPERATING ACTIVITIES	870,029	885,292
NET CASH USED IN INVESTING ACTIVITIES	(1,606,859)	(757,358)
NET CASH FROM FINANCING ACTIVITIES	2,524,423	243,867
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,787,593	371,801
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,183,000	1,844,102
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,970,593	2,215,903
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	3,970,593	2,406,508
Bank loans and overdrafts	—	(190,605)
	3,970,593	2,215,903

Consolidated statement of changes in equity

	Share capital HK\$'000	Share premium HK\$'000	Capital redemption reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Exchange translation reserve HK\$'000	Goodwill on consolidation HK\$'000	PRC statutory reserve HK\$'000	Dividend reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st January 2003											
As previously reported	541,247	5,193,116	7,596	89,600	381,960	(21,391)	(393,451)	11,497	54,125	1,841,895	7,706,194
Prior period adjustments	—	—	—	(10,727)	(60,612)	—	—	—	—	(74,679)	(146,018)
As restated	541,247	5,193,116	7,596	78,873	321,348	(21,391)	(393,451)	11,497	54,125	1,767,216	7,560,176
Exchange differences on translation of financial statements	—	—	—	—	—	667	—	—	—	—	667
2002 final dividend paid	—	—	—	—	—	—	—	—	(54,125)	—	(54,125)
Issue of shares less expenses	203	923	—	—	—	—	—	—	—	—	1,126
Repurchase of own shares	(2,334)	—	2,334	—	—	—	—	—	—	(15,094)	(15,094)
Share of associates' reserves movements	—	—	—	(2,100)	—	—	—	—	—	—	(2,100)
Realised when properties were used and depreciated	—	—	—	—	(3,395)	—	—	—	—	3,395	—
Profit for the period	—	—	—	—	—	—	—	—	—	212,022	212,022
Amounts set aside for dividend payment	—	—	—	—	—	—	—	—	108,249	(108,249)	—

Consolidated statement of changes in equity (continued)

	Share capital	Share premium	Capital redemption reserve	Investment property revaluation reserve	Other property revaluation reserve	Exchange translation reserve	Goodwill on consolidation	PRC statutory reserve	Dividend reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 30th June 2003	539,116	5,194,039	9,930	76,773	317,953	(20,724)	(393,451)	11,497	108,249	1,859,290	7,702,672
2003 interim dividend paid	—	—	—	—	—	—	—	—	(108,249)	—	(108,249)
Issue of shares less expenses	4,987	26,570	—	—	—	—	—	—	—	—	31,557
Increase on revaluation of investment properties	—	—	—	3,295	—	—	—	—	—	—	3,295
Deficit on revaluation of properties for own use reclassified to investment properties	—	—	—	—	(16,845)	—	—	—	—	—	(16,845)
Realised on disposal of properties	—	—	—	—	(327)	—	—	—	—	327	—
Realised when properties were used and depreciated	—	—	—	—	(3,395)	—	—	—	—	3,395	—
Deferred tax liability arising from surplus on revaluation of properties	—	—	—	—	(3,577)	—	—	—	—	—	(3,577)
Profit for the period	—	—	—	—	—	—	—	—	—	476,896	476,896
Amounts set aside for dividend payment	—	—	—	—	—	—	—	—	191,174	(191,174)	—
Transfer to PRC statutory reserve	—	—	—	—	—	—	—	53,434	—	(53,434)	—
At 1st January 2004	544,103	5,220,609	9,930	80,068	293,809	(20,724)	(393,451)	64,931	191,174	2,095,300	8,085,749
Exchange differences on translation of financial statements	—	—	—	—	—	(4,659)	—	—	—	—	(4,659)
2003 final dividend paid	—	—	—	—	—	—	—	—	(191,174)	—	(191,174)
Issue of shares less expenses	10,385	65,361	—	—	—	—	—	—	—	—	75,746
Issue of shares less expenses on placing of existing shares	85,000	1,412,453	—	—	—	—	—	—	—	—	1,497,453
Repurchase of own shares	(2,995)	—	2,995	—	—	—	—	—	—	(36,856)	(36,856)
Share of associates' reserves movements	—	—	—	(3,534)	—	107	—	—	—	—	(3,427)
Realised on disposal of properties	—	—	—	9,437	—	—	—	—	—	—	9,437
Realised when properties were used and depreciated	—	—	—	—	(3,395)	—	—	—	—	3,395	—
Deferred tax liability arising from surplus on revaluation of properties	—	—	—	—	480	—	—	—	—	—	480
Profit for the period	—	—	—	—	—	—	—	—	—	368,076	368,076
Amounts set aside for dividend payment	—	—	—	—	—	—	—	—	127,299	(127,299)	—
At 30th June 2004	<u>636,493</u>	<u>6,698,423</u>	<u>12,925</u>	<u>85,971</u>	<u>290,894</u>	<u>(25,276)</u>	<u>(393,451)</u>	<u>64,931</u>	<u>127,299</u>	<u>2,302,616</u>	<u>9,800,825</u>

Notes to the Financial Statements

For the six months ended 30th June, 2004

(1) Principal accounting policies and basis of presentation

The unaudited consolidated condensed accounts have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants. These condensed accounts should be read in conjunction with the 2003 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed accounts are consistent with those used in the annual accounts for the year ended 31st December, 2003.

(2) Business segments

The businesses based upon which the Group reports its primary segment information are as follows:

Property development	—	development and sale of properties
Property investment	—	property letting
Construction	—	building and civil construction, foundation engineering and project management
Infrastructure project investment	—	investments in entities undertaking infrastructure projects

**(2) Business segments** (continued)

Segment information about revenue and contribution to results and the profit for the period are listed in the following table:

Period Ended 30th June 2004

	Property development	Property investment	Construction	Infrastructure project investment	Other operations	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE							
External	2,011,500	73,715	1,647,473	143,933	25,392	—	3,902,013
Inter-segment	—	2,054	182,507	—	—	(184,561)	—
	<u>2,011,500</u>	<u>75,769</u>	<u>1,829,980</u>	<u>143,933</u>	<u>25,392</u>	<u>(184,561)</u>	<u>3,902,013</u>
RESULTS							
Segment results	<u>473,415</u>	<u>54,899</u>	<u>76,289</u>	<u>32,557</u>	<u>7,939</u>	<u>(2,054)</u>	643,045
Interest and other income							14,611
Unallocated corporate expenses							<u>(60,724)</u>
Profit from operations							596,932
Finance costs							<u>(43,893)</u>
Share of results of Associates	(2,123)	—	8,972	(3,479)	—	—	3,370
Jointly controlled entities	—	—	—	8,825	—	—	<u>8,825</u>
Profit before taxation							565,234
Income tax expense							<u>(153,654)</u>
Profit before minority interests							411,580
Minority interests							<u>(43,504)</u>
Profit for the period							<u>368,076</u>

(2) Business segments (continued)

Period Ended 30th June, 2003

	Property development	Property investment	Construction	Infrastructure project investment	Other operations	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
REVENUE							
External	1,555,917	81,542	1,604,683	28,318	24,544	—	3,295,004
Inter-segment	—	3,000	67,665	—	—	(70,665)	—
	<u>1,555,917</u>	<u>84,542</u>	<u>1,672,348</u>	<u>28,318</u>	<u>24,544</u>	<u>(70,665)</u>	<u>3,295,004</u>
RESULTS							
Segment results	<u>256,024</u>	<u>66,456</u>	<u>62,420</u>	<u>28,093</u>	<u>12,774</u>	<u>(3,000)</u>	422,767
Interest and other income							20,120
Unallocated corporate expenses							(67,986)
Profit from operations							374,901
Finance costs							(27,649)
Share of results of associates	(1,092)	—	6,554	3,898	(1,351)	—	8,009
Profit before taxation							355,261
Income tax expense							(84,157)
Profit before minority interests							271,104
Minority interests							(59,082)
Profit for the period							<u>212,022</u>

**(3) Profit from operations**

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging (crediting):		
Depreciation	<u>38,975</u>	<u>39,296</u>
Amortisation of negative goodwill	<u>(4,009)</u>	<u>(187)</u>
Interest income	<u>(6,126)</u>	<u>(6,320)</u>

(4) Income tax expense

	Six months ended 30th June	
	2004 HK\$'000	2003 HK\$'000
The charge (credit) comprises:		
Company and subsidiaries		
Hong Kong profits tax	14,158	3,316
PRC income tax	<u>138,080</u>	<u>72,731</u>
	<u>152,238</u>	<u>76,047</u>
Associates		
Hong Kong profits tax	—	520
PRC income tax	<u>3,493</u>	<u>2,367</u>
	<u>3,493</u>	<u>2,887</u>
Deferred Taxation		
– current	<u>(2,077)</u>	<u>(499)</u>
– attributable to increase in tax rate	<u>—</u>	<u>5,722</u>
	<u>(2,077)</u>	<u>5,223</u>
	<u>153,654</u>	<u>84,157</u>

(4) Income tax expense *(continued)*

Hong Kong profits tax is calculated at 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

PRC income tax is calculated at the applicable PRC tax rates on the estimated assessable profit for the period.

(5) Dividends

The Directors declared the payment of an interim dividend for 2004 of HK2 cents per share (2003: HK2 cents per share).

(6) Earnings per share

The calculation of the basic earnings per share is based on the profit for the period attributable to shareholders of HK\$368,076,000 (2003: HK\$212,022,000) and on the weighted average number of 6,200,748,169 (2003: 5,403,990,382) ordinary shares in issue during the period.

The calculation of the diluted earnings per share is based on the profit for the period attributable to shareholders of HK\$368,076,000 (2003: HK\$212,022,000) and on the weighted average number of 6,280,832,511 (2003: 5,434,830,736) ordinary shares in issue and issuable after adjusting for the weighted average number of dilutive potential ordinary shares of 80,084,342 (2003: 30,840,354) ordinary shares on the assumption that all share options were exercised during the period.

(7) Trade and other receivables

Except for revenue from property sales and infrastructure project investments which are payable in accordance with the terms of the relevant agreements, generally the Group allows a credit period of not exceeding 60 days to its customers.

The following is an analysis of trade and other receivables at the balance sheet date:

	30th June, 2004 HK\$'000	31st December, 2003 HK\$'000
Receivables, aged		
0-30 days	693,708	794,651
31-90 days	148,897	295,964
Over 90 days	409,849	256,166
Retentions receivable	374,319	356,543
	<u>1,626,773</u>	<u>1,703,324</u>

**(8) Trade and other payables**

The following is an analysis of trade and other payables at the balance sheet date:

	30th June, 2004	31st December, 2003
	HK\$'000	<i>HK\$'000</i>
Payables, aged		
0-30 days	1,956,968	1,732,924
31-90 days	232,525	193,296
Over 90 days	388,046	532,612
Retentions payable	361,318	412,930
	<hr/> 2,938,857 <hr/>	<hr/> 2,871,762 <hr/>

(9) Contingent liabilities

At 30th June, 2004, guarantees given and indemnities provided by the Group in respect of credit facilities granted to associates were HK\$1,002,330,000 (31st December, 2003: HK\$1,002,355,000). Outstanding counter indemnities for surety bonds issued in respect of construction projects amounted to HK\$1,246,096,000 (31st December, 2003: HK\$1,168,850,000). In addition, mortgage bank loans repayment guarantee granted to purchasers of the Group's properties amounted to HK\$2,341,719,000 (31st December, 2003: HK\$2,405,420,000).

(10) Pledge of assets

At the balance sheet date:

- (a) The banking facilities granted to an associate were secured by pledge of the shares in and subordination of the advances to the associate with an aggregate carrying value of approximately HK\$570 million (31st December, 2003: HK\$549 million).
- (b) The mortgage bank loans granted to the purchasers of the Group's properties were secured by the Group's bank deposits amounting to approximately HK\$17 million (31st December, 2003: HK\$12 million).

Interim Dividends

The Directors declared the payment of an interim dividend of HK2 cents per share (2003: HK2 cents per share) to shareholders whose names appear in the register of members of the Company on 6th September, 2004. The interim dividend will be payable on 10th September, 2004.

Closure of Register of Members

The register of members of the Company will be closed from 3rd September, 2004 (Friday) to 6th September, 2004 (Monday), both dates inclusive, during which period no transfer of shares will be registered.

In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's registrars, Standard Registrars Limited at G/F., Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, no later than 4:00 p.m. on 2nd September, 2004 (Thursday).

Review of Operations

During the first half of 2004, investment sentiment has improved with the satisfactory growth in the dominant global economies such as Europe, Japan and the USA. The economic situation in Hong Kong has improved and the positive impacts of more tourism from Mainland China and CEPA flourish leading to lower unemployment rate and disappearance of deflation. The recovery of the Hong Kong economy is hence confirmed. The political situation in the PRC remained steady while the economy continues its trend of rapid growth. In April, in view of the too rapid economic growth plus problem caused by duplicate low quality investments, the Central Government implement austerity measures to several industries. The measures are now seen to have positive effects. Regarding property development market, the measures mainly focus in tighten regulation of land supply and tightening of credit. The Board believes all these are aimed at better regulate and direct the real estate market resulting in faster elimination of unregulated and unprofessional small developers. This indeed provides promising opportunities to those enterprises with financial strength and reputable national brandname.

Under a complex and ever-changing market environment, the Group recorded satisfactory operating results from its major businesses during the first half of 2004. Robust sale of properties in various districts in the PRC continued with its turnover for the first time exceeding that of the construction and contracting business. The Group seized opportunities in Beijing, Shenzhen, Chengdu, Nanjing, Guangzhou and Suzhou and acquired 7 pieces of land with total gross development area ("GFA") of 2,770,000 sq.m. This creates a solid foundation for our further increase in business operation. The construction and contracting business in Hong Kong maintained its remarkable business achievement in both newly awarded contract sums and turnover. The infrastructure investments in the PRC also recorded satisfactory performance.



Property Development

Property sales

During the six months ended 30th June, 2004, the gross property sales of the Group was about HK\$3.1 billion, representing an increase of 100% as compared to the corresponding period of 2003. The corresponding GFA was 490,000 sq.m., representing an increase of 92%. By end of June, the total GFA pre-sold was 356,000 sq.m. and the corresponding sales revenue was HK\$2.2 billion (this includes pre-sale of 2 projects due to complete in 2005 with GFA of 77,000 sq.m. and corresponding sales amount of HK\$280,000,000).

The turnover for the first half of the year was HK\$2.01 billion, an increase of 29.3%. The turnover of property sales in the PRC was about HK\$1.87 billion, representing an increase of 23.8% as compared to the corresponding period of last year. The corresponding GFA was 380,000 sq.m., an increase of 37.1%. The sales in Hong Kong increase significantly to HK\$140,700,000, 88% of which came from the Ellery Terrace Project.

PRC Property Projects due to complete in 2004

The Group plans to complete 13 projects in 2004 (please refer to the 2003 Annual Report for details). Based on the present progress and under normal circumstances, the Board believes that great majority of the area for all these projects except the Peace Garden Phase II can be completed by end of the year. The Board is also confident of achieving sales in GFA of 1,000,000 sq.m. for this year.

There are 6 projects completed during the first half of this year, including Phase II and Phase III of Sunny Palm in Shenzhen, part of Phase IIA of Cannes Garden in Guangzhou, part of Phase IIA of Hai Yue Garden in Shanghai, Grandeur Vista Phase II in Chengdu and Phase IA of Villa Marbella in Changchun. Total GFA for these 6 projects amounted to 410,000 sq.m., 80% of which (or 330,000 sq.m.) has been sold by end of June, raising HK\$1.57 billion. Sales of properties held for sale was satisfactory. 50,000 sq.m. were sold for about HK\$300,000,000. As at end of June 2004, the Group has property held for sale of 260,000 sq.m., of which about 110,000 sq.m. were residential units (of which properties completed before end 2003 was 60,000 sq.m.).

During the period, Phase II of the Stanley Regalia Bay project in which the Group has 30% interest was the only project in Hong Kong completed for occupation. By end of June, 88 out of the 139 houses have been sold, raising over HK\$3.8 billion.

In terms of operating profits, due to increase of sale turnover and further improvement of gross profit margin to 24%, the PRC property development recorded a profit of HK\$449,700,000, an increase of 68.8% as compared to same period last year and making up 68% of the operating profits before deduction of unallocated corporate expenses and finance costs which is equal to HK\$657,656,000. Hong Kong property development recorded a profit of HK\$23,700,000.

Land acquired during the period

During the first half of 2004, the Group acquired 7 pieces of land in the major cities of the PRC, which provided 2,770,000 sq.m. GFA for development in the near future. As at 30th June, 2004, after taking out projects completed in the period, the GFA owned by the Group in respect of the properties to be developed and under development amounted to 7,200,000 sq.m., enough for development for the next 4 years.

City	Name of Project	Intended Usage	Percentage of interest attributable to the Group	Total GFA (^{'000 sq.m.})	Land Premium (HK\$ billion)
Beijing	Xiao Hong Mun	Residential	100%*	530	0.93
Shenzhen	Honey Lake	Residential	50%*#	156	0.93
Shenzhen	Bantian II	Residential	100%*	97	0.13
Guangzhou	Zhu Kong New City G2	Residential	100%*	160	0.43
Nanjing	Jian Yi District	Residential	100%*	170	0.32
Chengdu	Hi-tech Zone	Residential & Commercial	100%##	1,400	1.00
Suzhou	Jin Ji Lake	Residential	100%	260	0.76
				2,773	4.50
				2,773	4.50

* Held through COP in which the Group has 79% interest

Sino Land Company Ltd. has 50% interest

Sino Land Company Ltd. has 20% interest

Construction and Contracting Business

During the first half of 2004, the Group was awarded 8 new projects with total contract sum of HK\$1.435 billion, all of which were management contracts for China State Construction Engineering Corporation and China State Construction Engineering (Hong Kong) Limited.

At the end of June, the Group had 52 projects in progress with total contract sum of HK\$19.26 billion (HK\$7.67 billion to be completed). Among which, 21 projects with total contract sum of HK\$5.31 billion (HK\$2.36 billion to be completed) were operated by the Group, and 31 projects with total contract sum of HK\$13.95 billion (HK\$5.31 billion to be completed) were management contracts.



The works of all the contracting projects on hand were progressing smoothly. Notwithstanding the tough market condition, the Construction and Contracting business contributed a satisfactory operating profit of HK\$76,300,000.

Infrastructure Investments

During the period, infrastructure related investment projects in the PRC continued to contribute steady operating profit to the Group of HK\$32,600,000. The Group is following up on some infrastructure projects and is expected to secure one or two projects later this year.

Property Rentals

During the period, rentals of the leasing properties in Hong Kong improved slightly. The Group's properties in Hong Kong including The China Overseas Building and the shopping arcade of Horae Place remained a high occupancy rate, whereas Shanghai Plaza in Shanghai and Dongshan Square in Guangzhou recorded a satisfactory occupancy rate. Mainly due to the disposal of more rental properties in China, the Group's rental income in the first half of the year decreased 9.6% to HK\$73,700,000, of which 59% was from China.

Prospects

The Board is very optimistic about the future of the Group. Amidst some market uncertainties, the global economy is still expected to do well in the coming years. The recovery of the Hong Kong economy has been confirmed. With deflation gone and employment improved, the Board expects that the economy and the real estate market in Hong Kong will perform well in the near future. The PRC economy will be affected by the implementation of austerity measures in the short term. We believe soft landing is forthcoming soon thus facilitating the rapid and sustainable growth of the PRC economy in the future. All these factors are favorable to the business operation of the Group. The top priority for the Group is to improve the consolidated strengths and competitiveness of our various business segments and to increase the return on shareholders' fund to above 10%.



The PRC Property Development Business

The implementation of the austerity measures in April will accelerate the renovation, consolidation and reorganization of the PRC property market. This will eventually lead to elimination of the small and unprofessional players and leaving behind of strong and professional players. On the other hand, the sustainable rapid growth in economic development and disposal income of individuals, plus the national policy of urbanization and the natural desire to improve living condition, will create substantial genuine demand for houses. Captured on the competitive advantages of the Group in financial and manpower capabilities, excellent management style and in the reputable national brandname, we will continue to increase our scale of investment in the PRC property market. The Group is capable, confident and determined to become one of the best nationwide property developers in the PRC and to maintain annual growth in sales of not less than 20% for the next five years.

- a. Quality land bank is precious to a property developer and the Group takes both the quality and quantity of our land bank seriously. Tighter regulation of land supply will lead to shortage in land and hence rise in land price. Tightening of credit will lead to financial difficulties of some property developers thus forcing them to give up some of their projects on hand. During the first half of this year, the Group acquired 7 pieces of land with total GFA of 2,770,000 sq.m. At the right price, the Group may acquire more land in the remaining period of 2004. The Group will continue to increase our land reserve for short term development at the pace of not less than 1,500,000 sq.m. GFA every year. In the first half of 2004, the Group has developed one new point in Suzhou. It is planned that we will develop few more new points later and the target cities are Dongguan, Zhuhai, Yantai and Tianjin. The Group is carefully analyzing the carrying costs, risk and potential appreciation of our land bank with the objective of setting the optional level of land bank.
- b. Property development is a capital intensive business and cyclical in nature. The Group is very cashflow conscious. We will endeavour to improve the internal rate of return of every project through stringent control of payments and receipts, active promotion of sales of all projects at the best time and maintaining our good policy of “low” inventory at all times. We expect there are 12 projects due to complete in 2005 with a total GFA of not less than 1.3 million sq.m..
- c. In an announcement made by The State-owned Assets Supervision and Administration Committee (“SASAC”) on 28th June 2004 in relation to property development business operated by State-owned Enterprises, SASAC expressed the view of the Central Government for State-owned Enterprises to focus in their respective core business and to dispose of their property development business. It was proposed that 5 companies which are seen to have sizeable business operation in property development and with turnover from property development business making up a great proportion of their total turnover should be the preferred buyer for such disposals. The ultimate parent of the Company China State Construction Engineering Corporation is among one of the 5 named parties.



This announcement should have significant favorable impact on the Group's PRC property development business. The Board is carefully studying the impact and will actively follow up on any opportunities arise.

- d. China Overseas Property Group Co., Ltd. ("COP"), in which the Group has 79% interest, has completed its A share pre-listing nurture period inspection. To comply with the regulatory requirements of the listing of COP, an assets restructure exercise was required and the said exercise was approved by the shareholders of the Company in an extraordinary general meeting held on 30th January 2004. COP is in the course of actively preparing relevant materials so that its application can be made as soon as possible to the Chinese Securities Regulatory Commission. But the final timetable for the listing of COP and the commercial consideration are yet to be determined. As soon as the spin-off application of COP is made, the Group will publish further announcement and seek shareholders' approval (if required) in accordance with the Listing Rules.

Construction and Contracting Business

In the announcement made by the Company on 19th January 2004, the Board confirmed our consideration to combine all or part of the Group's construction related businesses with those of China Overseas Holdings Limited, the controlling shareholder of the Company. The combined businesses will be put under a new company ("NEWCO") and it is intended that NEWCO will apply for listing by way of introduction to The Stock Exchange of Hong Kong Limited following by a special dividend in kind of the Group's interest in NEWCO to the shareholders of the Company. On 25th June 2004, the Company further announced that a non-binding memorandum of understanding has been executed between the NEWCO and the Company in relation to the disposal of the Group's construction related businesses. Also, NEWCO has lodged an application for listing to the Stock Exchange on 29th June 2004. The Board believes that the restructure if materialized will clear the lines of business for the Group. The Board would like to inform shareholders that the restructure is actively in progress. When the application for the listing of NEWCO is approved, the Group will make further announcement and seek shareholders' approval in compliance with the Listing Rules.

Infrastructure Business

The Group will continue to look actively for infrastructure related projects to offset the effects of repurchase by Chinese counterparties of our interests in the Guangxi infrastructure projects. The Board believes that it is important for the Group to have stable long term income to offset the cyclical nature of property development business.



Hong Kong and Macau Property Development Business

The Hong Kong property market rebounded strongly in the first quarter of 2004 and then entered into a period of consolidation. The Board expects the rising trend will resume in the fourth quarter of this year. Over 2/3 of the Stanley Regalia Bay project in which the Group has 30% interest has been sold so far at an average price of about HK\$10,000/sq. ft. In the last financial year 2003, HK\$300,000,000 provision write-back has been made on this project. Assuming that the current market condition can maintain, the Board expects further provisions write-back can be made in future from our Hong Kong property portfolio. The Group will continue to watch the Hong Kong property market closely and for opportunities in City Redevelopment projects cautiously. In the Short term, our focus is to accelerate sale of inventory.

The Board is optimistic about the economy and property market in Macau. In February this year, the Group has secured a piece of land in Macau with GFA of about 140,000 sq.m.. All the procedures to purchase the land have now been completed. Construction work for this project is expected to start by end of the year. The project is expected to launch pre-sale in 2005 and be completed by 2006.

Financial Policies

The Group will continue to adopt a prudent financial policy to ensure the persistent and healthy growth of the Group. Taking into consideration the business operation environment of the Group, we will endeavour to control our net gearing level to no more than 50% at all times. Due to the effective control of payments and receipts and notwithstanding the rapid expansion of the PRC property business, the Group as at the end of June 2004 was in a net cash position. In line with the strategic expansion, it is expected that the capital expenditure of the Group could be substantial this year. The Group seized the opportunity in the capital market and raised HK\$1.5 billion by placing 850 million shares of the Company at the price of HK\$1.8 per share to institutional investors on 26 January 2004. On 28th July 2004, the Group also signed a HK\$2.43 billion 5-year loan facilities agreement. As at end of June, we had cash on hand of HK\$4.04 billion. At present, the Group has ample cash and taking into account unutilized banking facilities of about HK\$5 billion, we have about HK\$9 billion financial resources available. The Group is hence financially sound and has adequate financial resources to meet internal requirements and new business opportunities.

Strategic Planning and Management

The implementation of the austerity measures in April and the announcement by the SASAC in June will accelerate the renovation, consolidation and reorganization of the PRC property market. The eventual disposal of the construction business will bring in some fundamental changes to the Group. The Board firmly believes in the importance of strategic planning and management. A reputable international consultant has been appointed to assist the Board in formulating the strategic development plan of the Group for the coming 3 years and in its effective implementation. This will ensure that the Group can tackle all challenges ahead effectively and be best equipped to seize opportunities, deliver excellent results and to enhance shareholders value.



Management Discussion and Analysis

Overall Performance

During the period reported, the turnover of the Group was HK\$3,908,137,000 (2003: HK\$3,301,324,000), representing an increase of 18.4% as compared to the corresponding period last year. The operating profits after adjusting for unallocated corporate expenses of HK\$60,724,000 and financial costs of HK\$43,893,000 was HK\$553,039,000 (2003: HK\$347,252,000), representing an increase of 59.3% as compared to the corresponding period last year. Profit attributable to shareholders was HK\$368,076,000 (2003: HK\$212,022,000), representing an increase of 74%. Basic earnings per share was HK5.94 cents (2003: HK3.92 cents) while diluted earnings per share was HK5.86 cents (2003: HK3.90 cents). As at 30th June, 2004, the Group's total shareholders' funds amounted to HK\$9,800,825,000 (2003: HK\$7,702,672,000) while the net asset value per share was HK\$1.54 (2003: HK\$1.43).

Income

The operating income from property development business was HK\$2,011,500,000. This is mainly due to satisfactory property sales in the PRC with sales income increased substantially to HK\$1,870,800,000, accounting for 47.9% of the total turnover and representing an increase of 23.8% as compared to the corresponding period last year. Hong Kong property sales also increased substantially to HK\$140,700,000.

The turnover of the contracting business was HK\$1,647,500,000, accounting for 42.2% of the total turnover and representing an increase of 2.7% as compared to the corresponding period last year.

Rental income of properties was HK\$73,700,000, representing a decrease of 9.6% as compared to the corresponding period last year. This is mainly due to rental in Hong Kong has just started to increase and the continued disposal of rental properties in the PRC.

Infrastructure related investment revenue was HK\$143,900,000, representing an increase of 408% as compared to the corresponding period last year. This is mainly due to inclusion of the turnover of the Shenyang Huang Gu thermo electric project.

Turnover from other operations amounted to HK\$31,500,000.

Profit from Operations

During the period reported, profit from operations after adjusting for unallocated corporate expenses of HK\$60,724,000 and financial costs of HK\$43,893,000 was HK\$553,039,000 (2003: HK\$347,252,000), representing an increase of 59.3% as compared to the corresponding period last year, in which the PRC property development business had satisfactory sales and continued increase in profit margin thus contributed about HK\$449,700,000, representing an increase of 68.8%. The profit from the PRC property sector mainly consisted of sales of properties from six projects completed during the period. The overall sales margin of property business in the PRC in the first half of 2004 was 24% which was better by 36.4% as compared to the first half of 2003. The Hong Kong property market started to rebound from the 4th quarter of last year and this sector recorded a profit of HK\$23,700,000.

As the competition in the Hong Kong construction market was fierce which led to tight profit margin in the construction business. With the implementation of various cost reduction measures, the gross profit margin of the contracting business in Hong Kong was improved slightly to 5.1%. The Hong Kong contracting business contributed about HK\$83,300,000 while the PRC construction business recorded a loss of HK\$7,000,000, representing an overall profit increase of 22.2%.

Rental from investment properties and infrastructure related investment continued to provide a stable source of income to the Group contributing operating profit of about HK\$52,800,000 and HK\$32,600,000 respectively.

Unallocated Administrative Expenses

The unallocated administrative expenses of the Group for the first half of 2004 was HK\$60,724,000, representing a decrease of 10.7% as compared to the corresponding period last year.

It is expected that the expenses in the second half of the year will be controlled within the budget.

Liquidity, Financial Resources and Gearing

The Group adopted a prudent financial policy and strictly monitored its payments and receipts. On 26th January, 2004, the Group placed out 850 million Company shares at the price of HK\$1.8 per share to institutional investors, raising HK\$1.5 billion. The financial strength of the Group has been substantially improved. With the investments in PRC property development sharply increased, the overall borrowing increased by 29%. The interest rate on financing from Hong Kong maintained at a low level but due to the fact that the Group borrowed more money from the PRC and the interest rates were higher there, the Group's finance cost in the first half of 2004 increased by 4.2% to HK\$60,351,000.

As at 30th June, 2004, the consolidated bank debts of the Group amounted to HK\$3.927 billion (2003: HK\$3.045 billion), of which 41% was denominated in Hong Kong dollars and 59% was denominated in Renminbi.

As at 30th June, 2004, the Group had cash and bank balances amounted to approximately HK\$4.04 billion and was hence in a net cash position (2003: 7%) (basis: total bank debts net of bank balances and cash, and divided by shareholders' funds).

By end June 2004, the Group had unutilized banking facilities amounting to approximately HK\$2.475 billion. On 28th July, 2004, the Group signed in Hong Kong a 5-year HK\$2.43 billion loan agreement, thus increased the standby banking facilities substantially and at a cost much lower than in the PRC.



Except for HK\$900 million out of a HK\$1.8 billion syndicated loan, all the above bank borrowings were made on floating rates. The Group entered into an interest swap arrangement in February (commencing on 23rd April, 2003 and expiring on 23rd July, 2007) pursuant to which the interest rate of a HK\$600 million loan was fixed at about 4.3%. In July this year, another interest swap arrangement was made (commencing on 23rd October, 2003 and expiring on 23rd July, 2007) pursuant to which the interest rate of a HK\$300 million loan was fixed at about 4.0%. The Group has no other derivative exposure either for hedging or speculative purpose. Due to the fact that interest rate is on the rising trend, the Group will carefully consider when is the appropriate time to enter into more interest swap arrangement so as to fixed in advance the funding costs at a low level.

Employees

As at 30th June, 2004, the Group has 7,182 employees in which 3,228 of them were based in Hong Kong and 3,954 in the PRC. The target responsibility system for each department launched last year has started to have positive effect. In order to enable the Group to face the fierce competition in the Hong Kong construction market, our policy of "Compete with low costs and manage for higher quality" has to be pervasively applied. To improve the employment chance of our staff and also to reduce redundancy cost, we have strengthened internal transfer arrangement. To enhance the quality and capability of our human resources as well as their team spirit and the corporate culture, the Group has organized many training programme during the period.

Other

As there was no material change in the aspects of the Group's taxation, segmental information and charges on assets, exposure to fluctuations in exchange rates and related hedges and contingent liabilities compare with those disclosed in the Company's Annual Report for the year ended 31st December, 2003, no detailed disclosures are made herein.

Share Capital

The Company's total issued share capital as at 30th June, 2004 was 6,364,927,609 ordinary shares of HK\$0.10 each (the "Shares").

Share Option Scheme

During the six months ended 30th June, 2004, options to subscribe for a total of 103,840,000 Shares (including options exercised by the Directors) of the Company were exercised, particulars as follows:

Date of Exercise	17th July 1997 (i)	14th February 1998 (ii)	30th September 1998 (iii)	4th January 2000 (iv)	24th October 2001 (v)	Total	Weighted average market price immediately before the exercise
08.01.2004	—	1,750,000	780,000	1,790,000	12,000,000	16,320,000	1.66
12.01.2004	—	2,670,000	2,450,000	3,190,000	6,000,000	14,310,000	1.68
05.02.2004	—	6,830,000	1,870,000	2,290,000	6,000,000	16,990,000	1.76
11.02.2004	—	2,130,000	1,940,000	2,190,000	—	6,260,000	1.78
16.02.2004	—	70,000	80,000	120,000	19,000,000	19,270,000	1.78
17.02.2004	—	—	1,000,000	1,200,000	—	2,200,000	1.79
24.02.2004	—	990,000	790,000	760,000	—	2,540,000	1.81
22.03.2004	—	2,360,000	620,000	570,000	—	3,550,000	1.80
01.04.2004	—	—	—	—	18,000,000	18,000,000	1.79
13.04.2004	—	510,000	60,000	600,000	—	1,170,000	1.79
30.04.2004	—	530,000	60,000	140,000	—	730,000	1.74
25.05.2004	—	640,000	360,000	780,000	—	1,780,000	1.65
02.06.2004	—	200,000	100,000	360,000	—	660,000	1.63
19.06.2004	—	—	—	60,000	—	60,000	1.60
Total:	—	18,680,000	10,110,000	14,050,000	61,000,000	103,840,000	

During the six months ended 30th June, 2004, the option movement of the directors is as follows:

Name of director	Date of Grant	Number of shares under options granted				Outstanding at 30.06.2004
		Outstanding at 1.1.2004	Granted during the period	Exercised during the period	Cancelled during the period	
Mr. Sun Wen Jie	17th July, 1997(i)	6,880,000	—	—	—	6,880,000
	14th February, 1998(ii)	20,000,000	—	520,000	—	19,480,000
	30th September, 1998(iii)	2,280,000	—	760,000	—	1,520,000
	4th January, 2000(iv)	2,000,000	—	500,000	—	1,500,000
	18th June, 2004(vi)	—	3,360,000	—	—	3,360,000
		31,160,000				32,740,000

Name of director	Date of Grant	Outstanding at 1.1.2004	Number of shares under options granted			Outstanding at 30.06.2004
			Granted during the period	Exercised during the period	Cancelled during the period	
Mr. Kong Qingping	17th July, 1997(i)	1,000,000	—	—	—	1,000,000
	14th February, 1998(ii)	11,000,000	—	280,000	—	10,720,000
	30th September, 1998(iii)	1,380,000	—	460,000	—	920,000
	4th January, 2000(iv)	1,600,000	—	400,000	—	1,200,000
	18th June, 2004(vi)	—	3,360,000	—	—	3,360,000
		14,980,000				17,200,000
Mr. Yao Peifu	17th July, 1997(i)	3,800,000	—	—	—	3,800,000
	14th February, 1998(ii)	15,000,000	—	—	—	15,000,000
	30th September, 1998(iii)	1,500,000	—	500,000	—	1,000,000
	4th January, 2000(iv)	1,600,000	—	400,000	—	1,200,000
	18th June, 2004(vi)	—	2,880,000	—	—	2,880,000
		21,900,000				23,880,000
Mr. Cui Duosheng	17th July, 1997(i)	1,000,000	—	—	—	1,000,000
	14th February, 1998(ii)	9,000,000	—	—	—	9,000,000
	30th September, 1998(iii)	1,080,000	—	360,000	—	720,000
	4th January, 2000(iv)	1,360,000	—	340,000	—	1,020,000
	18th June, 2004(vi)	—	2,880,000	—	—	2,880,000
		12,440,000				14,620,000
Mr. Cheung Shiu Kit	17th July, 1997(i)	1,000,000	—	—	—	1,000,000
	18th June, 2004(vi)	—	2,880,000	—	—	2,880,000
		1,000,000				3,880,000
Mr. Wu Jianbin	17th July, 1997(i)	550,000	—	—	—	550,000
	14th February, 1998(ii)	800,000	—	160,000	—	640,000
	30th September, 1998(iii)	540,000	—	180,000	—	360,000
	4th January, 2000(iv)	1,040,000	—	260,000	—	780,000
	18th June, 2004(vi)	—	2,880,000	—	—	2,880,000
		2,930,000				5,210,000

Name of director	Date of Grant	Outstanding at 1.1.2004	Number of shares under options granted			Outstanding at 30.06.2004
			Granted during the period	Exercised during the period	Cancelled during the period	
Mr. Yip Chung Nam	17th July, 1997(i)	800,000	—	—	—	800,000
	14th February, 1998(ii)	1,000,000	—	1,000,000	—	—
	18th June, 2004(vi)	—	2,000,000	—	—	2,000,000
		<u>1,800,000</u>				<u>2,800,000</u>
Mr. Nip Yun Wing	18th June, 2004(vi)	—	500,000	—	—	500,000
		—				<u>500,000</u>

Notes:

- (i) The share options were granted at an exercise price of HK\$4.06 per Share, exercisable for the period from 17th July, 1998 to 16th July, 2007 (both dates inclusive).
- (ii) The share options were granted at an exercise price of HK\$1.08 per Share, exercisable for the period from 14th February, 1999 to 13th February, 2008 (both dates inclusive).
- (iii) The share options were granted at an exercise price of HK\$0.52 per Share, exercisable for the period from 30th September, 1999 to 29th September, 2008 (both dates inclusive).
- (iv) The share options were granted at an exercise price of HK\$0.58 per Share, exercisable for the period from 4th January, 2001 to 3rd January, 2010 (both dates inclusive).
- (v) The share options were granted at an exercise price of HK\$0.69 per Share, exercisable for the period from 24th October, 2002 to 23rd October, 2011 (both dates inclusive).
- (vi) The share options were granted at an exercise price of HK\$1.13 per Share, exercisable for the period from 18th June, 2005 to 17th June, 2014 (both dates inclusive).

Save as disclosed above, during the six months ended 30th June, 2004, none of the Directors of the Company has exercised any options to subscribe for Shares of the Company.

Pursuant to the existing share option scheme adopted on 18th July, 2002, the Company has granted new options to 67 selected employees (including directors) on 18th June, 2004 for their subscription of an aggregate of 65,140,000 shares at the exercise price of HK\$1.13 per share. Such options can be exercised during the period from 18th June, 2005 to 17th June, 2014 (both dates inclusive). The closing price of the Shares on 17th June 2004 (immediately before 18th June 2004, the date those options granted) was HK\$1.2 per Share.

Saved as disclosed above, no options have been granted to any eligible employees (including the directors and independent non-executive directors of the Company) to subscribe for Shares of the Company.

Options to subscribe for 4,450,000 Shares have been lapsed during the six months ended 30th June, 2004.



Directors' and Chief Executive's Interests and Short Positions

As at 30th June, 2004, the Directors, the Chief Executive of the Company and their respective associates had the following interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance (the "SFO"):

(i) Personal Interests in the Shares

Name of Director	Number of Shares held	Percentage of issued share capital
Mr. Sun Wen Jie	3,800,000	0.06
Mr. Kong Qingping	2,460,000	0.04
Mr. Yao Peifu	2,300,000	0.04
Mr. Cui Duosheng	1,760,000	0.03
Mr. Wu Jianbin	1,040,000	0.02
Mr. Yip Chung Nam	2,200,000	0.03
Dr. Li Kwok Po, David	200,000	0.00

(ii) Underlying Shares

As at 30th June, 2004, the outstanding number of Shares issuable under the share options granted pursuant to the Share Option Scheme to the Directors and the Chief Executive of the Company was 100,830,000 Shares (2003: 113,930,000), representing approximately 1.58% of the issued share capital of the Company.

Name of Director	Number of Shares under options granted on				18th June, 2004 (Note 5)
	17th July, 1997 (Note 1)	14th February, 1998 (Note 2)	30th September, 1998 (Note 3)	4th January, 2000 (Note 4)	
Mr. Sun Wen Jie	6,880,000	19,480,000	1,520,000	1,500,000	3,360,000
Mr. Kong Qingping	1,000,000	10,720,000	920,000	1,200,000	3,360,000
Mr. Yao Peifu	3,800,000	15,000,000	1,000,000	1,200,000	2,880,000
Mr. Cui Duosheng	1,000,000	9,000,000	720,000	1,020,000	2,880,000
Mr. Cheung Shiu Kit	1,000,000	—	—	—	2,880,000
Mr. Wu Jianbin	550,000	640,000	360,000	780,000	2,880,000
Mr. Yip Chung Nam	800,000	—	—	—	2,000,000
Mr. Nip Yun Wing	—	—	—	—	500,000

Notes:

- (1) The share options were granted at an exercise price of HK\$4.06 per Share, exercisable for the period from 17th July, 1998 to 16th July, 2007 (both days inclusive).
- (2) The share options were granted at an exercise price of HK\$1.08 per Share, exercisable for the period from 14th February, 1999 to 13th February, 2008 (both days inclusive).
- (3) The share options were granted at an exercise price of HK\$0.52 per Share, exercisable for the period from 30th September, 1999 to 29th September, 2008 (both days inclusive).
- (4) The share options were granted at an exercise price of HK\$0.58 per Share, exercisable for the period from 4th January, 2001 to 3rd January, 2010 (both days inclusive).
- (5) The share options were granted at an exercise price of HK\$1.13 per Share, exercisable for the period from 18th June, 2005 to 17th June, 2014 (both days inclusive).

Save as disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director or Chief Executive of the Company or their respective associates in the Shares and underlying Shares of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Nor any of the Directors and Chief Executive of the Company (including their spouses and children under the age of 18) had, as at 30th June, 2004, any interest in, or had been granted any right to subscribe for the Shares and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.



Interests of Substantial Shareholder

At 30th June, 2004, the following parties (other than Directors or the Chief Executive of the Company) were substantial shareholders of the Company (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the “**Listing Rules**”)) and had interests in the Shares and underlying Shares of the Company as recorded in the register maintained by the Company pursuant to Section 336 of the SFO:

Name of shareholder	Number of Shares held	Percentage of issued share capital
China Overseas Holdings Limited (“COHL”)	3,245,704,800	50.99
China State Construction Engineering Corporation (“CSCEC”)	3,245,704,800	50.99
J.P. Morgan Chase & Co.	383,130,691	6.02
HSBC Asset Management (Hong Kong) Limited	326,836,000	5.13

COHL is a direct wholly owned subsidiary of CSCEC, thus CSCEC is deemed by the SFO to be interested in 3,245,704,800 Shares directly owned by COHL.

Save as disclosed above, the Company had not been notified of any other person (other than Directors or the Chief Executive of the Company) who had an interest in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO as at 30th June, 2004.

Corporate Governance

None of the Directors is aware of information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th June, 2004 in compliance with Appendix 14 of the Listing Rules of the Stock Exchange.



Purchase, Sale or Redemption of the Company's Listed Securities

During the period, the Directors of the Company have exercised powers of the Company to make repurchases of its own shares for a total of 29,948,000 shares on the Stock Exchange as follows, all of which were cancelled:

	Number of Shares	Highest Price Paid <i>HK\$</i>	Lowest Price Paid <i>HK\$</i>	Total Consideration <i>HK\$</i>
April, 2004	16,474,000	1.38	1.24	21,475,280
May, 2004	13,474,000	1.20	1.06	15,213,400
	<u>29,948,000</u>			<u>36,688,680</u>

Review of Interim Report

The unaudited interim report of the Group for the six months ended 30th June, 2004 was reviewed by the members of the Audit Committee of the Company which comprises three Independent Non-executive Directors.

On behalf of the Board, I would like to take this opportunity to express our gratitude for the support of the shareholders and our business partners and the contribution of our staff.

By order of the Board

Kong Qingping

Vice Chairman and Chief Executive

Hong Kong, 18th August, 2004